

Report
of the
Examination of
Reedsburg-Westfield Mutual Insurance Company
Reedsburg, Wisconsin
As of December 31, 2003

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

May 14, 2004

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Honorable Jorge Gomez
Secretary, Midwestern Zone, NAIC
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of
December 31, 2003, of the affairs and financial condition of:

REEDSBURG-WESTFIELD MUTUAL INSURANCE COMPANY
REEDSBURG, WISCONSIN

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Reedsburg-Westfield Mutual Insurance Company (the company) was made in 1999, as of December 31, 1998. The current examination covered the intervening time period ending December 31, 2003, and included a review of such subsequent transactions deemed essential to complete this examination.

The "Summary of Examination Results" contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was organized as a town mutual insurance company on March 4, 1876, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Reedsburg Farmers Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there was one amendment to the articles of incorporation and no amendments to the bylaws. The amendment changed the annual meeting time from the afternoon hours to the evening hours on the 2nd Tuesday in February.

The company is currently licensed to write property, including windstorm and hail, and non-property insurance. The company is currently licensed to write business in the following counties:

Sauk
Richland
Juneau

Vernon
Monroe
Columbia

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of three years with annual premiums payable on the advance premium basis. The company does not charge any other fees to policyholders.

Business of the company is acquired through eight agents, seven of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
Property and Liability Insurance	8% of Premium Plus \$15 per hour policy quotes and for service

*The company payments for the per hour compensation amounted to less than \$838 for 2004.

Director\Agents have authority to adjust losses up to \$5,000. Losses in excess of this amount are adjusted by two director\agents. Any claims with the potential of being over \$50,000 or those that may be difficult are adjusted by an outside adjuster. Liability claims are handled by Wisconsin Adjusting Service. Adjusters receive \$18.00 per hour for each loss adjusted plus \$.38 per mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of eight members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may

be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term. The company's Articles of Incorporation require that the corporation be managed by a board of directors consisting of nine members. Further comment on this issue can be found in the Current Examination Results section of this report.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Charles Backeburg*	Postal Carrier	Reedsburg, WI	2005
David Geffert*	Farmer	Reedsburg, WI	2006
Sandra Hein*	Secretary – Reedsburg-Westfield	Reedsburg, WI	2007
Carl Mundth*	Cabinet Maker	Reedsburg, WI	2005
Dennis Murray*	Economic Support Specialist	Reedsburg, WI	2006
Eugene Murray*	Retired	Reedsburg, WI	2007
Keith Pelton	Retired	Reedsburg, WI	2007
Fred Strutz*	Building Foreman	Reedsburg, WI	2005

Directors who are also agents are identified with an asterisk.

Members of the board currently receive \$75.00 for each meeting attended and \$.38 per mile for travel expenses. They also receive \$15.00 per hour for attendance in educational meetings and seminars.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

Name	Office	2003 Salary
Eugene Murray	President	\$21,777
Fred Strutz	Vice-President	4,926
Sandra Hein	Secretary	58,580
Dennis Murray	Treasurer	16,224

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Loss Committee

Charles Backeburg
Eugene Murray, Chair
Keith Pelton
Fred Strutz

Investment Committee

Sandra Hein
Carl Mundth
Dennis Murray, Chair
Fred Strutz

Growth of Company

The growth of the company since the previous examination as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2003	\$363,853	1,095	\$54,152	\$1,722,559	\$1,379,209
2002	341,127	1,096	202,011	1,604,077	1,284,362
2001	336,708	1,078	12,225	1,449,313	1,159,484
2000	345,078	1,214	107,450	1,501,474	1,173,006
1999	351,466	1,216	136,964	1,350,111	1,055,006
1998	363,733	1,215	(24,712)	1,194,987	890,987

The ratios of gross and net premiums written to surplus as regards policyholders since the previous examination were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Net	Ratios Gross
2003	\$643,854	\$363,853	\$1,379,209	26%	47%
2002	608,427	341,127	1,284,362	27	47
2001	580,884	336,708	1,159,484	29	50
2000	577,902	345,078	1,173,006	29	49
1999	589,279	351,466	1,055,006	33	56
1998	594,986	363,733	890,987	41	67

For the same period, the company's operating ratios were as follows:

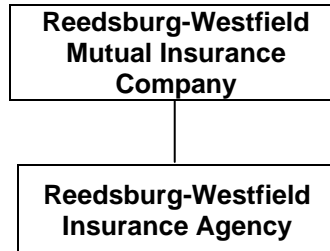
Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
2003	\$202,540	\$110,822	\$347,853	58%	30%	89%
2002	77,198	97,807	337,727	23	29	52
2001	256,891	99,746	335,937	76	30	106
2000	220,101	89,051	355,794	62	26	88
1999	139,402	110,978	351,412	40	32	71
1998	328,987	108,889	379,843	87	30	117

Over the past five years, surplus has increased 54.8% from the \$890,548 reported at the last exam to \$1,379,209 at December 31, 2003. Admitted assets showed a 44.1% increase over the same period. Net premiums written have remained fairly constant over the past five years increasing by less than .1% from 1998 to 2003. The company has reported underwriting gains four out of the last five years and net income nine out of the last 10 years.

II. AFFILIATED COMPANIES

Reedsburg-Westfield Mutual Insurance Company is a member of a holding company system and is the ultimate parent. The organizational chart below depicts the relationship among the affiliates in the group. A brief description of the affiliate follows the organizational chart.

Holding Company Chart As of December 31, 2003



Reedsburg-Westfield Insurance Agency

Reedsburg-Westfield Insurance Agency (RWIA) was created by Reedsburg-Westfield Mutual Insurance Company (RWMIC) so it could offer automobile insurance through the agency as a means to retain its existing policyholders who were being drawn away by other insurers that are able to offer automobile-homeowner package discounts. The agency was initially capitalized at \$10,000 with RWMIC holding 100% of the outstanding shares.

At the time of the examination, the agency was not doing any direct business; however, it has a contract with 1st Auto & Casualty Insurance Company to offer auto insurance to RWMIC policyholders. As of December 31, 2003, the company's unaudited financial statement reported assets of \$10,897, liabilities of \$0, and equity of \$10,897. Operations for 2003 produced a net income of \$139.

III. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Company
Effective date:	January 1, 2004
Termination provisions:	Either party may terminate the contract on any January 1 by giving 90 days' advance notice to the other party.

The coverage's provided under this treaty are summarized as follows:

- | | |
|----------------------|---|
| Type of contract: | Class A Liability |
| Lines reinsured: | Nonproperty |
| Company's retention: | \$750 in respect to each and every loss occurrence, plus an additional \$1,000 deductible on each milk contamination claim |
| Coverage: | 100% of any loss, including loss adjustment expense, in excess of company's retention in respect to each and every loss occurrence, limited to \$1,000,000 per occurrence |
| Reinsurance premium: | 75% of gross premium written |
- | | |
|----------------------|---|
| Type of contract: | Class B First Surplus |
| Lines reinsured: | Property Business |
| Company's retention: | Retention is on a per-risk pro rata basis, plus 10% of loss and loss adjusting expenses recoverable as an annual aggregate deductible |
| Coverage: | When net retention is \$200,000 or more in respect to a risk, the reinsurer shall accept up to \$800,000 per risk on a pro rata basis. When the net retention is \$200,000 or less in respect to a risk, the reinsurer shall accept up to 50% of such risk. The reinsurer shall be liable for the pro rata portion of each and every loss, including loss adjustment expense, corresponding to the amount of risk ceded |
| Reinsurance premium: | Pro rata portion of all premiums, fees, and assessments corresponding to the amount of each risk ceded |
| Ceding commission: | 15% of premium paid to reinsurer |

Additional commission:	Commission of 15% of net profit, if any. Net profit is defined as premiums earned minus ceding commission minus 10% of premiums for expenses incurred by reinsurer minus loss and loss adjusting expenses minus any net loss carry-forward per the reinsurers year-end calculation
3. Type of contract:	Class C-1 Excess of Loss – First Layer
Lines reinsured:	Property business
Company's retention:	\$30,000 in respect to each and every loss occurrence, plus an annual aggregate deductible of \$25,000;
Coverage:	100% of any loss, excluding loss adjustment expense, in excess of company's retention in respect to each and every loss occurrence, limited to \$45,000 per occurrence
Reinsurance premium:	Calculated by taking the sum of the last four years' losses incurred (paid plus outstanding) by the reinsurer divided the total net premiums written for the same period multiplied by 125%, subject to a minimum of 6% and a maximum of 21.75% of the current net written premiums. Current year rate is 6% with a minimum premium \$19,500
4. Type of contract:	Class C-2 Excess of Loss – Second Layer
Lines reinsured:	Property business
Company's retention:	\$75,000 in respect to each and every risk resulting from one loss occurrence
Coverage:	100% of any loss, excluding loss adjustment expense, in excess of company's retention in respect to each and every loss occurrence, limited to \$125,000 per occurrence
Reinsurance premium:	3.25% of net premium written with a minimum premium of \$10,500
5. Type of contract:	Class D/E - Aggregate Stop Loss
Lines reinsured:	Property and Non-property business
Company's retention:	75% of net premiums written with a minimum net retention of \$259,000
Coverage:	100% of aggregate losses, excluding loss adjustment expenses, over company's retention in any annual period
Reinsurance premium:	Calculated by taking the sum of the last eight years' losses incurred (paid plus outstanding) by the reinsurer divided the total net premiums written for the same period multiplied by 125%, subject to a minimum of 7.0% and a maximum of 25% of the current net written premiums. Current year rate is 7.46%

IV. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2003, annual statement.

Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus".

Reedsburg-Westfield Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2003

Assets

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash deposited in checking account	\$ 65,358	\$	\$	\$ 65,358
Cash deposited at interest	383,834			383,834
Bonds	741,223			741,223
Stocks and mutual fund investments	401,123			401,123
In course of collection	4,347		78	4,269
Deferred and not yet due	94,600			94,600
Investment income accrued		13,153		13,153
Electronic data processing equipment	1,213			1,213
Reinsurance contingent commission receivable	17,786			17,786
Furniture and fixtures	<u>2,781</u>	<u> </u>	<u>2,781</u>	<u>0</u>
Totals	<u>\$1,712,265</u>	<u>\$13,153</u>	<u>\$2,859</u>	<u>\$1,722,559</u>

Liabilities and Surplus

Net unpaid losses	\$ 25,000
Unpaid loss adjustment expenses	375
Commissions payable	4,389
Fire department dues payable	289
Federal income taxes payable	1,473
Unearned premiums	250,700
Reinsurance payable	51,653
Payroll taxes payable (employer's portion)	<u>9,471</u>
Total Liabilities	343,350
Policyholders' surplus	<u>1,379,209</u>
Total Liabilities and Surplus	<u>\$1,722,559</u>

Reedsburg-Westfield Mutual Insurance Company
Statement of Operations
For the Year 2003

Net premiums and assessments earned		\$347,853
Deduct:		
Net losses incurred	\$188,046	
Net loss adjustment expenses incurred	14,494	
Other underwriting expenses incurred	<u>110,822</u>	
Total losses and expenses incurred		<u>313,362</u>
Net underwriting gain (loss)		34,491
Net investment income:		
Net investment income earned	45,752	
Net realized capital gains	<u>(16,153)</u>	
Total investment gain (loss)		29,599
Other income:		
Miscellaneous	<u>162</u>	
Total other income		<u>162</u>
Net income (loss) before policyholder dividends and before federal income taxes		64,252
Net income (loss) before federal income taxes		64,252
Federal income taxes incurred		<u>10,100</u>
Net Income (Loss)		<u>\$ 54,152</u>

Reedsburg-Westfield Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2003

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	2003	2002	2001	2000	1999
Surplus, beginning of year	\$1,284,362	\$1,159,484	\$1,173,006	\$1,055,006	\$890,987
Net income	54,152	202,011	12,225	107,450	136,964
Net unrealized capital gains or (losses)	40,167	(75,569)	(27,310)	8,049	24,307
Change in non-admitted assets	528	(1,564)	1,563	2,501	2,748
Surplus, end of year	<u>\$1,379,209</u>	<u>\$1,284,362</u>	<u>\$1,159,484</u>	<u>\$1,173,006</u>	<u>\$1,055,006</u>

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2003 is accepted.

V. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Corporate Records — It is recommended that the company execute formal written agreements with its agents indicating the agent will represent the company's interests "in good faith."

Action—Compliance.

2. Agency Operations — It is recommended that the company, in accordance with ch. Ins 40, Wis Adm. Code, properly file all required holding company filings for the agency for all future years.

Action—Compliance.

3. Disaster Recovery Plan — It is recommended that the company develop a formal written disaster recovery plan.

Action—Compliance.

4. Claims Files — It is recommended that the company adopt procedures for logging in the date claims are reported and that claims-related documentation be date stamped at time of receipt in order to assure compliance with s. Ins 628.46, Wis. Adm. Code, regarding the timely payment of claims.

Action—Partial compliance, see comments in the summary of current examination results.

5. Claims Settlement — It is recommended that the company adopt procedures to follow-up on older open claims to assure the timely settlement of claims, in compliance with s. Ins 6.11 (3) (a) 2, Wis. Adm. Code.

Action—Noncompliance, see comments in the summary of current examination results.

6. Accounts Payable — It is recommended that the company properly classify commissions payable and loss adjusting expenses payable in the correct accounts according to annual statement instructions.

Action—Compliance.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof, were reviewed for the period under examination and also for the subsequent period. At the time of the exam, it was noted that the company had less than the required number of directors on its board of directors. It is recommended that the company fill the director vacancy or change to the articles of incorporation to reduce the number of directors and submit such to the commissioner for approval pursuant to s. 612.04, Wis. Stat.

It was also noted that at the 2003 annual meeting, the company did not have enough members to constitute a quorum in accordance with their Articles of Incorporation due to inclement weather. It is recommended that for all future meetings where there are not enough members present to constitute a quorum, the meeting should be adjourned and rescheduled in accordance with the company's Articles of Incorporation.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts did not include language indicating the agent will represent the company's interests "in good faith." During the exam fieldwork, the company corrected these agreements and had the agents sign the revised agreements.

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted. The questionnaires were not completely filled out. During the exam the directors

answered question number two and resign the questionnaires. All directors/agents are also agents of Reedsburg-Westfield Agency, which is solely owned by Reedsburg-Westfield Mutual Insurance Company.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity bond	\$100,000
Workers Compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Agent Errors & Omissions	
Liability Limit	1,000,000
Each Claim	2,500
Directors & Officers	
Professional Liability	1,000,000
Directors & Officers	1,000,000
Maximum Aggregate	1,000,000
PL & DO deductible	2,500
Commercial Liability	
General Aggregate limit	2,000,000
Products Aggregate limit	2,000,000
Personal Injury limit	1,000,000
Each Occurrence limit	1,000,000
Damage to Premises	100,000
Medical Limit each person	5,000
Business Continuation	
Total liability all claims	6,000,000
Single risk	300,000

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. A sampling of new applications and renewal business is inspected by committee members who are independent of the risk under consideration and review.

Agency Operations

The company has established Reedsburg-Westfield Insurance Agency, which was described in the section of this report entitled "Affiliated Companies". Establishing this agency subjected the company to ch. Ins 40, Insurance Holding Company System Regulation, Wis. Adm. Code. In accordance with ch. Ins 40, the company is required to make certain filings in relation to the agency. This includes the annual registration statement, Form B, the summary registration statement, Form C, and any other filings which may be required as the agency increases operations. The company has properly filed all required holding company filings for the agency since February 10, 2000.

RWMIC provides all of the administrative and management services necessary for RWIA through a services agreement. The agreement specifies fixed quarterly payments of \$166, plus 10% of RWMIC monthly telephone expense, to be paid by RWIA to RWMIC. These payments were based on an estimate of expected expenses made at the time the agreement was entered into. The examination found that these payments were not being made to RWMIC due to the minimal income and expenses generated on the part of RWIA. It is recommended that within 60 days, the company require RWIA to make payments as required by the current agreements or amend the agreement to address the reimbursement of expenses and file such in accordance with Chapter Ins 40.04 (2), Wis. Adm. Code.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained

3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2003.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. Access to the computer is limited to people authorized to use the computer.

Company personnel back up the computer daily and the backed-up data is kept on-site in a fireproof safe. They also back up the computer weekly and the backed-up data is kept off-site.

A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company has manuals documenting the use of its software.

Business Continuity Plan

A business continuity plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building. The company has developed a business continuity plan. The company's business continuity plan appears to be adequate.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

- (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
- (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements.

Investment Rule Compliance

The investment rule for town mutual insurers allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1. Liabilities plus \$300,000	\$ 643,350
2. Liabilities plus 33% of gross premiums written	512,472
3. Liabilities plus 50% of net premiums written	481,927
4. Amount required (greater of 1, 2, or 3)	643,350
5. Amount of Type 1 investments as of 12/31/2003	<u>1,250,133</u>
6. Excess or (deficiency)	<u>\$ 606,783</u>

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash	\$449,192
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The above asset is comprised of the following types of cash items:

Cash deposited in banks-checking accounts	\$ 65,358
Cash deposited in banks at interest	<u>383,834</u>
 Total	 <u>\$449,192</u>

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in a local bank. Verification of checking account balances was made by obtaining confirmations directly from the depositor and reconciling the amounts shown thereon to company records.

Cash deposited in banks at interest represents the aggregate of five deposits in five depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2003 totaled \$8,931 and was verified to company cash records. Rates of interest earned on cash deposits ranged from .52% to 5.10%. Accrued interest on cash deposits totaled \$1,202 at year-end.

Book Value of Bonds	\$741,223
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The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2003. Bonds owned by the company are located in their bank's safety deposit box or held by their custodian.

Bonds were physically inspected or confirmed by the examiners. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2003 on bonds amounted to \$45,592 and was traced to cash receipts or brokers records. Accrued interest of \$11,951 at December 31, 2003, was checked and allowed as a non-ledger asset.

Stocks and Mutual Fund Investments**\$401,123**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2003. Stocks owned by the company are located in their bank's safety deposit box.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. The company has an exception approved by this office to invest in common stocks up to 35% of assets rather than the 25% allowed under s. Ins 6.20 (6) (d) (3), Wis. Adm. Code.

Dividends received during 2003 on stocks and mutual funds amounted to \$5,267 and were traced to cash receipts records.

Premiums, Agents' Balances in Course of Collection**\$4,269**

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of individual agent's accounts verified the accuracy of this asset.

Premiums Deferred and Not Yet Due**\$94,600**

This asset represents modal premium installments (such as monthly, quarterly, etc.) that are not yet due. A review of a sample from the company's detailed list of deferred premiums verified the accuracy of this asset.

Investment Income Due and Accrued**\$13,153**

Interest due and accrued on the various assets of the company as of December 31, 2003, consists of the following:

Cash Deposited at Interest	\$ 1,202
Bonds	<u>11,951</u>
Total	<u>\$13,153</u>

Electronic Data Processing Equipment**\$1,213**

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2003. A review of receipts and other documentation verified the balance. Non-operating system software was properly non-admitted.

Reinsurance Contingent Commission Receivable**\$17,786**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2003, based on the profitability of the business ceded under its contract with Wisconsin Reinsurance Corporation. A review of the terms of the reinsurance agreement and year-end accountings with the reinsurer verified the above asset.

Furniture and Fixtures**\$0**

This asset consists of \$2,781 of office equipment owned by the company at December 31, 2003. In accordance with annual statement requirements, this amount has been deducted as a non-admitted asset.

LIABILITIES AND SURPLUS

Net Unpaid Losses

\$25,000

This liability represents losses incurred on or prior to December 31, 2003, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2003, with incurred dates in 2003 and prior years. To the actual paid loss figure was added an estimated amount for 2003 and prior losses remaining unpaid at the examination date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	\$29,999	\$22,019	\$7,980
Less: Reinsurance recoverable on unpaid losses	<u>4,999</u>	<u>2,730</u>	<u>2,269</u>
Net Unpaid Losses	<u>\$25,000</u>	<u>\$19,289</u>	<u>\$5,711</u>

The above difference of \$5,711 was not considered material for purposes of this examination.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments, most of the time, (there were exceptions, see below), are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files did not contain sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Through claims testing, the examiner noted instances where dates received were not always entered on the claim documentation. It is again recommended that the company adopt procedures to date stamp claim documentation at the time of receipt in order to assure compliance with s. Ins 628.46, Wis. Adm. Code, regarding the timely payment of claims.

The examination also noted that the company routinely allows claims to remain open for a number of years without settlement, while the company waits for information from the claimant or for the insured to repair covered damages. This practice may be interpreted to be an unfair settlement policy by failure to initiate and conclude claim investigations in a reasonable period of time. It also increases the company's exposure to additional loss sustained on damaged and unrepaired property. It is again recommended that the company adopt procedures for timely settlement of claims, in compliance with s. Ins 6.11 (3) (a) 2, Wis. Adm. Code.

Unpaid Loss Adjustment Expenses **\$375**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2003, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is to generally maintain it at a fixed dollar amount, subject to adjustment based on review of its loss reserve levels.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Commissions Payable **\$4,389**

This liability represents the commission's payable at December 31, 2003. The examiners reviewed the company's commission calculation and found the liability to be correctly calculated. The actual amounts paid were verified to cash disbursements and the cancelled checks

Fire Department Dues Payable **\$289**

This liability represents the fire department dues payable at December 31, 2003. The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Federal Income Taxes Payable **\$1,473**

This liability represents the balance payable at year-end for federal income taxes incurred prior to December 31, 2003. The examiners reviewed the company's 2003 tax return and verified amounts paid to cash disbursement records to verify the accuracy of this liability.

Unearned Premiums**\$250,700**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology. During this examination, it was determined that the company included its advance premium in its unearned premium balance. The advance premium amount was not considered material for purposes of this examination and therefore no reclassification was included in this report, however, it is recommended that the company include as "Advance Premium" the premiums for policies that become effective subsequent to the receipt of the premium payment pursuant to the Town Mutual Annual Statement Instructions.

Reinsurance Payable**\$51,653**

This liability consists of amounts due to the company's reinsurer at December 31, 2003, relating to transactions which occurred on or prior to that date. These amounts consist of the estimated payable amount at year-end based upon the reinsurer's adjusted calculations, and the amount payable for deferred premium. Subsequent payments and confirmation with the reinsurer verified the amounts reported.

Payroll Taxes Payable**\$9,471**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2003, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

VI. CONCLUSION

The examination verified the financial condition of the company and did not adjust reported surplus. The examination found that the company appears to be in compliance with all but two of the recommendations of the prior examination. The examination made four additional recommendations related to affiliate agreements, corporate records, and annual statement reporting requirements of the company.

Over the past five years, surplus increased from \$890,987 on December 31, 1998, to \$1,379,209 as of December 31, 2003, an increase of 54.8%. Net premiums written have remained fairly constant over the past five years, increasing of less than .1% over the period. The company has reported underwriting gains four out of the last five years and net income nine out of the last 10 years.

VII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 14 Corporate Records—It is recommended that the company fill the director vacancy or change to the articles of incorporation to reduce the number of directors and submit such to the commissioner for approval pursuant to s. 612.04, Wis. Stat.
2. Page 14 Corporate Records—It is recommended that for all future meetings where there are not enough members present to constitute a quorum, the meeting should be adjourned and rescheduled in accordance with the company's Articles of Incorporation.
3. Page 16 - Affiliate Companies—It is recommended that within 60 days, the company require RWIA to make payments as required by the current agreements or amend the agreement to address the reimbursement of expenses and file such in accordance with Chapter Ins 40.04 (2), Wis. Adm. Code.
4. Page 22 - Net Unpaid Loss—It is again recommended that the company adopt procedures to date stamp claim documentation at the time of receipt in order to assure compliance with s. Ins 628.46, Wis. Adm. Code, regarding the timely payment of claims.
5. Page 23 - Net Unpaid-Loss—It is again recommended that the company adopt procedures for timely settlement of claims, in compliance with s. Ins 6.11 (3) (a) 2, Wis. Adm. Code.
6. Page 24 - Unearned Premiums—it is recommended that the company include as "Advance Premium" the premiums for policies that become effective subsequent to the receipt of the premium payment pursuant to the Town Mutual Annual Statement Instructions.

VIII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Carina Toselli of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

Russell Lamb
Examiner-in-Charge